



VANCOUVER

HOUSING MARKET OUTLOOK

Canada Mortgage and Housing Corporation

Tale of Two Cities

Housing starts in Canada climbed to 205,034 units nation wide last year, the highest number in more than a decade. Low mortgage rates and an economy surprisingly resilient to US economic malaise, produced the rare event of rising housing starts in all provinces during 2002. Over the long term, economic and population growth will trend overall housing starts higher. However, short and medium term housing growth tends to vary regionally. During the last decade, residential construction activity varied significantly between Canada's largest city: Toronto, and its third largest; Vancouver. Local economic conditions and international migration cycles explain the variation.

Coming out of a recession in the first half of the last decade, housing starts in Toronto waned as restructuring in the Ontario economy curbed job

growth. At the same time, residential construction in Vancouver was booming, its skyline reshaped by an army of building cranes. The impending repatriation of Hong Kong and the City's post Expo popularity propped up immigration levels and job growth. Vancouver's new found prosperity also lured households from other provinces, especially Ontario, in search of jobs, which further bolstered housing demand.

The belt tightening in Ontario ended as US consumers drove up demand for Canadian manufactured products. Housing starts in Toronto soared in response. Meanwhile, with immigration to BC levelling off and the petroleum sector funnelling cash and equipment into Alberta, the underlying strength of the BC economy came into question. Vancouver home

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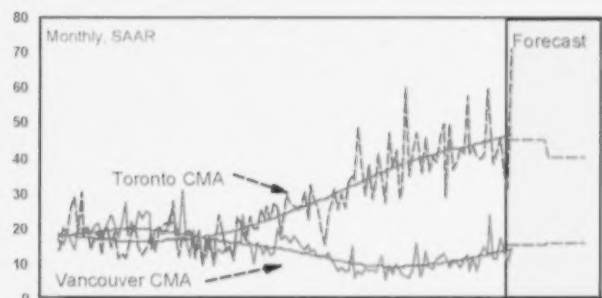
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Total Housing Starts



Source CMHC



HOME TO CANADIANS
Canada

New Housing Market

Residential construction in the Vancouver CMA has turned around considerably. Two years ago, the Vancouver new home market had just experienced its slowest year in nearly four decades. But housing starts rebounded the very next year growing 32 per cent in 2001, and a further 22 per cent in 2002. A total of 13,197 new home units were started in the Vancouver CMA last year. In the Fraser Valley, housing starts remained low in the Abbotsford CMA during both 2000 and 2001 until climbing 148 per cent to 1,038 units in 2002.

Single detached housing starts in the Vancouver CMA increased 42 per cent to just under 5000 units last year. Strong demand for resale housing precipitated an early response by home builders. Quicker to build single detached homes were first to sprout from the landscape and led growth in new housing for most of the year. Condominium construction lagged during the first half of the year as longer pre-development periods made this home type slower to respond to market demand. However, apartment condominium starts did manage to grow 12 per cent by year end.

New home prices in 2002 edged up as competition for available building sites bid up land prices. Moreover,

many home builders reported a shortage of labour, particularly in skilled trades people. In some cases, the labour component of the cost new housing rose by as much as 20 per cent. This was reflected in a 15 per cent increase in the average price of a new apartment condominium in 2002, rising to nearly \$304,000. The price of a new townhome increased by 8 per cent, while the average price of a new single detached home rose 4 per cent.

Low inventory levels of new housing in most communities and a mild winter kept builders active during the first quarter of the year. Total housing starts in the Vancouver CMA climbed 13 per cent in the first quarter of the year. Single detached housing starts continued to be robust, rising 53 per cent over the same period last year. Multiple housing starts fell 9 per cent during the quarter, but are expected to accelerate over the balance of the year as already planned projects enter the construction phase.

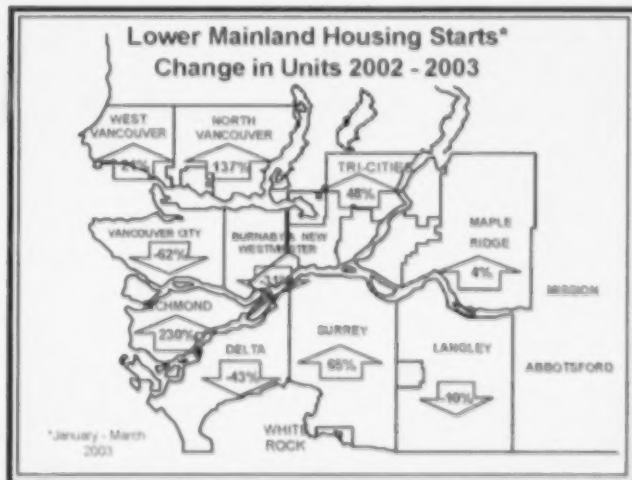
A number of buyer groups will influence the new home market over the next 24 months. Low mortgage rates continue to attract first time buyers. Starter homes in trend-setting locations will prove popular with this group. Move-up buyers are an attrac-

tive market for builders who offer homes featuring efficient and flexible designs. Empty-nest buyers, on the other hand, will gravitate to amenity laden homes and neighbourhoods. Many will buy luxury apartment condominiums in urban areas, while others will prefer suburban living, near a golf course, parkland, or other external amenity. Finally, small investors will continue to seek out compact apartments boasting a positive cash flow.

Looking forward, residential construction in the Vancouver CMA will continue to grow in response to low mortgage/interest rates and a provincial economy in the beginning stages of a growth cycle. Strong demand in the resale market continues to put upward pressure on home prices, creating further incentive for new home builders to increase production.

Total housing starts in the Vancouver CMA are forecast to increase 15 per cent to 15,200 units during 2002. Single detached construction will continue to post the largest gains, with 6,000 units expected to start in 2003, an increase of 20 per cent over 2002. Multiple housing starts will climb another 12 per cent in 2003 for a total of 9,200 units by year's end. Continued strength is expected through 2004 when total

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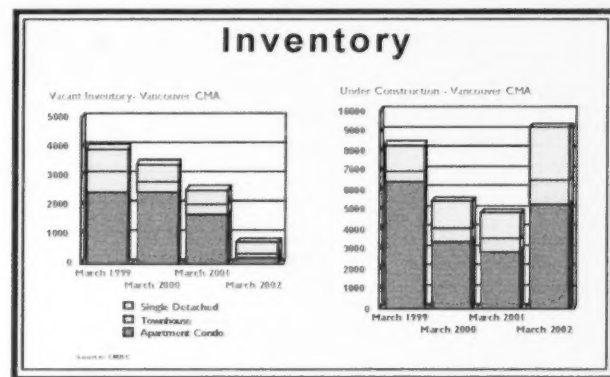


housing starts are forecast to climb 5 per cent to 16,000 units across the Vancouver CMA.

New home prices will continue to rise over the next two years. Higher wages and other building costs, particularly insurance, will keep the cost of a new home in the Vancouver CMA climbing through 2004. After posting a 15 per cent price gain in 2002, new condominium apartments will rise in price by 2-3 per cent on average over each of the next two years. A greater number of lower priced units built in suburban areas will curb growth in average prices. However, expect more significant price

increases in preferred locations and the downtown core. The average price of a new single detached home is expected to climb 6 per cent this year

and a further 2-3 percent in 2004. Land supply is a significant cost driver for this housing type. ■



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builders were forced to roll back production as total net migration to BC fell 90 per cent between 1994 and 1998. Now, it appears Toronto's housing boom has reached its peak, with single detached starts expected to fall 10 per

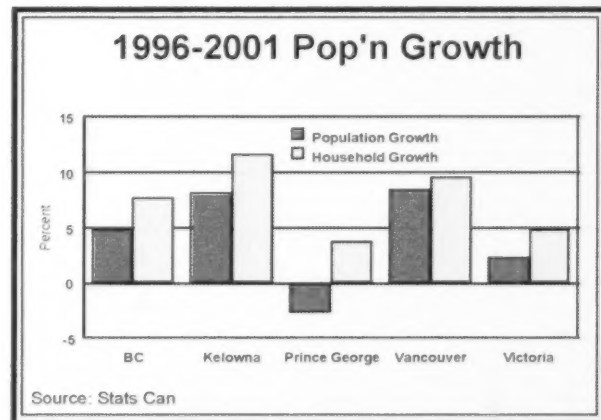
cent this year and total starts declining 12 per cent by 2004. Vancouver, on the other hand, is just now climbing out of the year 2000 trough, when the fewest housing starts were recorded since 1962. Housing starts in

Vancouver are forecast to rise 9 per cent this year and a further 8 per cent in 2004. Unlike its eastern cousin, residential construction in Vancouver is in the midst of a growth cycle. ■

In Focus: Population Shift

Cities are becoming increasingly important to national and provincial economies. The shift toward knowledge-based industry has reinvigorated urban living as households flock to cities in search of jobs. The hinterlands, once the machine of employment growth, are now the focus of scale economies and capital for labour replacement. While BC's resource rich regions are crucial to the provincial economy, they no longer drive job growth. As a result, the population of the province is becoming more concentrated in its largest urban centres.

Being the largest city in the province, Vancouver benefits from the trend toward urbanization. Housing markets are driven by population and household growth. Between 1996 and 2001 the population of province grew by 4.9 per



cent, while in the Vancouver CMA the population climbed 8.5 per cent. Moreover, it is not just population but household growth that matters to housing markets. Like population, household growth in the Vancouver CMA outpaced the province, 9.5 versus 7.7 per cent. Total net migration to

the province is an important measure. However, intra-provincial migration also has a significant effect on housing markets. This goes a long way to explain why the Vancouver CMA accounts for two-thirds of BC's housing starts. ■

Resale Market

MLS sales in BC increased 18 per cent in 2002, growing at a rate nearly twice the national average and faster than any other province in Canada. While low mortgage rates invigorated home buyers across the country, BC home buyers exhibited an extra boost in confidence brought about by an economy in the beginning stages of a growth cycle.

Closer to home, MLS sales in Greater Vancouver climbed 21 per cent in 2002 and 65 per cent over the last two years. Apartment condominiums were the strongest performers as first time buyers, empty-nesters, and local investors took advantage of increased buying power. However, strong demand for housing was not met by an equivalent increase in the number of new listings. As a result, upward pressure was exerted on home prices as inventory levels failed to keep up with demand. The average price of both a single detached home and a townhome over the year averaged 6-7 per cent higher in 2002, with apartment condominiums rising 12 per cent.

MLS sales during the first quarter declined 7 per cent compared to the same period last year. The decline is not surprising because the pace of sales during the first three months of 2002 was hardly sustainable. Nevertheless, sales of apartment condominiums did post a 3

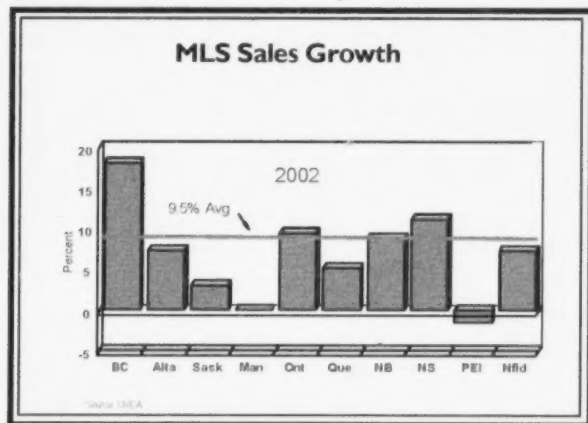
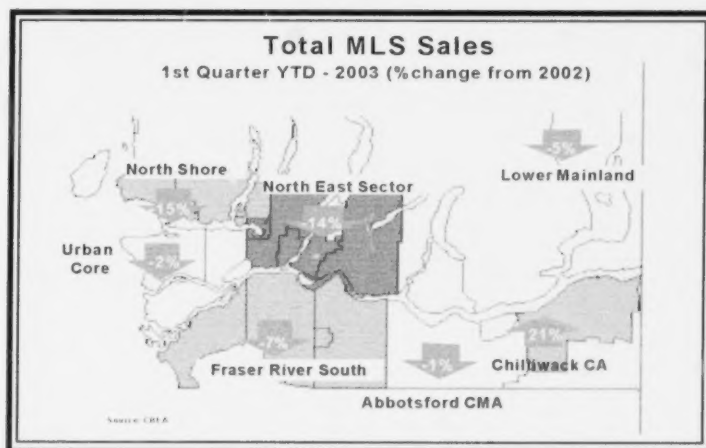
per cent increase during the first quarter over the same period last year. Sales of attached and single detached units declined, with the higher priced single detached units falling the most, down by 14 per cent.

Sales to new listing ratios are up again this spring from strong demand and fewer new listings. The higher the ratio of sales to new listings, the more pressure there is toward higher prices. In most local markets, this ratio is above 60 per cent, meaning sellers' market conditions. Some of Vancouver's hottest markets during the first quarter for single detached homes were New Westminster (76%), Ridge Meadows (76%), and Port Coquitlam (74%). The apartment condominium market was strongest in Burnaby (80%), the North Shore (79%), and Vancouver West (77%).

First time buyers led demand for apartment condominiums last year. As a result, the average MLS sale price of an apartment condominium climbed 12 per cent to \$196,654 last year in Greater Vancouver. The average single detached sale price increased 7 per cent to \$393,953, while the average sale price of a townhome rose 6 per cent to \$247,215 during 2003.

Looking forward, MLS sales in 2003 will remain strong at 33,000 units changing hands. A decline of 2.5 per cent is forecast over the 2002 sales level of 33,864 units. However, the drop is not the start of a trend, rather, it is a strong signal of continued market performance. By 2004, Greater Vancouver MLS sales will have edged down to 31,800 units, but still strong in historical terms. The levelling off of MLS sales is a market reaction to an

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increase in the number of new homes being constructed. Some of the strength in MLS sales during 2002 was the result of many new home buyers being forced into the resale market because of a lack of new home supply. But builders are now responding to demand, and the inventory of new homes is set to increase in the months ahead.

With the demand for homes remaining robust, average MLS prices will continue to edge up over the next 24 months. The average MLS sale price for a single detached home in Greater Vancouver is expected to rise 9 per cent

to \$430,000 this year, and a further 3 per cent to \$444,000 in 2004. The average MLS sale price for a townhouse is forecast to increase 4 per cent to \$256,000 this year, and

2 per cent to \$262,000 in 2004. Similarly, the average apartment condominium sales price will rise 4 per cent to \$206,000 this year, and another 4 per cent in 2004 to \$215,000.



Mortgage Rate Forecast

The combination of a resilient economy with its rising capacity utilization, an improving Canadian dollar, and rising inflation will likely lead the central bank to gently apply the brakes by raising interest rates in the months ahead. As the US economy improves and its interest rates begin to rise later this year, Canadian interest rates will also edge up in an effort to keep prices stable at home.

Short term interest rates are forecast to rise by 100-125 basis points (bps) this year and by as much as 100 bps in 2004. The Canadian 3-month Treasury Bill yield is forecast to be in the 2.75-4.25 per cent range this year and 4.25-5.25 per cent range in 2004.

Long term interest rates are also forecast to rise this year and next, albeit more moderately than short term rates. These rates are forecast to rise by 50-75 bps on average over the next two years. The 10 year Government of Canada bond yield is forecast to be in the 5.00-6.00 per cent range this year and 6.00-6.50 per cent in 2004.

The extent of monetary tightening and rising interest rates could be influenced by the state of geopolitical events, the

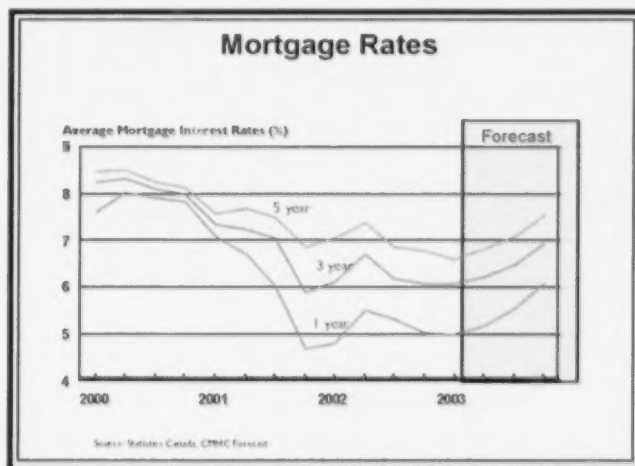
economic performance of our major trading partners, and the degree of volatility in the financial markets.

Short term mortgage rates tend to move in tandem with the prime rate, while mid- and long-term mortgage rates vary in response to the cost of raising funds in the bond markets. Mortgage rates are forecast to rise as interest rates head up this year and next.

The spread between mortgage rates and comparable bond yields have remained at 200-250 bps over the last two years. The one, three, and five

year closed mortgage rates are expected to be in the 5.00-6.25, 6.00-7.25, and 6.50-7.75 per cent range respectively over the year.

The US economy will remain soft in the first half of 2003, despite continuing strong consumer spending. A combination of easing geopolitical risks, aggressive fiscal stimulus, and rising corporate profits and spending will reduce the need for monetary stimulus. Thus higher interest rates can be expected as the US central bank seeks a wider spread between the interest and inflation rate.



Niche Markets: Investor Condominiums

During the last decade, the population in Metro Vancouver grew much faster than the total number of purpose built rental units. In fact, a total universe of 106,474 market rental apartments was recorded last fall in the Vancouver CMA, 4.0 per cent less than the 110,971 units recorded in 1990. While the proportion of households owning their own homes has trended up for decades, it does not account for an essentially stagnant universe of purpose built units in the face of a rapidly growing population. The answer can be found in the supply of non-traditional rental units.

Certainly, the proliferation of secondary suites has added supply to the overall rental housing market. Now, in many cases, 'mortgage helper' suites are expected by a market driven to offset the cost of housing. But the popularity of condominiums as individually owned rental units has also added a significant supply to the market. According to recent CMHC research* the number of investor condominiums in Vancouver, Burnaby, and Richmond is considerable. Here are some highlights:

- An estimated 30 per cent of apartment condominiums built in the study area during the 1990s are rented investor units. The downtown core has the greatest proportion of investor units to purpose built rental units, with 47 per cent investor owned. It is also estimated that 30 per cent of Westside condominium apartments and 20 per cent of Eastside units are investor owned. Outside of the City of Vancouver, nearly 18 per cent of Richmond condominium apartments and 15 per cent of those in Burnaby are also investor owned.

- Prevailing rents over the last decade were insufficient to create profits on new market rental apartment development. This operated as a disincentive for many developers and resulted

in few units produced during the period. In addition, the low interest rate environment has narrowed the rent/ownership gap, making home ownership a logical choice for many households.

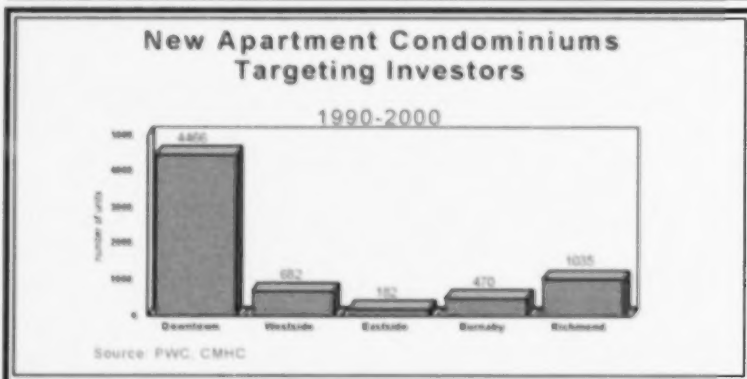
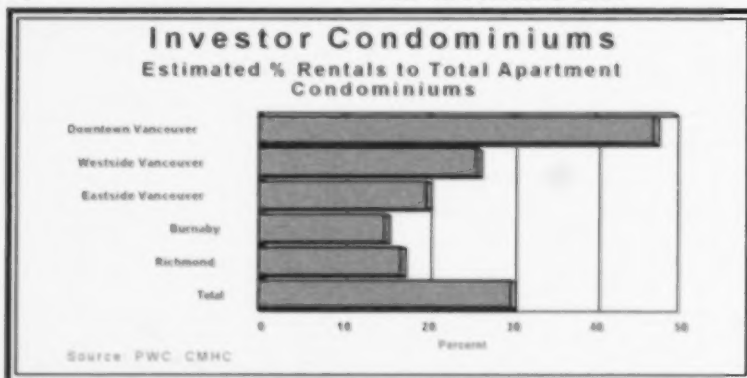
- Approximately nine out of every ten investors owns just one unit, with few owning more than three. The typical investor is over age 45, earning in excess of \$65,000 per annum, and most likely living locally, although there are a significant number of international investors as well.

- Return on investment is far more important than any design characteristics of the unit. Investors are particularly interested in the perceived low risk of rental investments because of the low vacancy rate history of the region. Moreover, tenants of rental condominiums typically have higher incomes than tenants in other types of rental housing, and are most often singles or couples without children.

- Investors tend to prefer smaller, no frills units where rent per square foot is highest. The average size of a rental condominium in the study area was 798 square feet, 19 per cent smaller than the average owner-occupied unit. The average size of a rental condominium was smallest in Vancouver at 754 square feet, and largest in Richmond at 1,145 square feet.

Investor rental condominiums are an important niche in the housing market, adding an estimated 18 per cent to the total universe of rental apartments in the City of Vancouver. With a large number of local investors holding one or two units each, there appears little risk of any mass divestment following changes in global capital flows. Moreover, investors in rental condominiums generally view their units as long term investments rather than short term speculations. *

* CMHC: The Impact of Investors on the Market for Apartment Condominiums in Selected Markets in the Vancouver CMA



Economic Outlook

BC economic output grew around 1.8 per cent during 2002, after shrinking 0.2 per cent last year. However, with the nation's economy as a whole climbing 3.4 per cent, BC's economy failed to light on the radar screen of many inter-provincial migrants. While central Canada's manufacturing sector benefited from low interest rates, boosting sales of its durable goods and automobiles at home and abroad, BC's economy was charged mainly from retail sales and the housing sector, leaving the resource sector struggling with trade disputes and weak international demand. By year's end, BC exports of goods and services managed a paltry 0.8 per cent increase on the heels of 4.3 per cent decline in 2001.

BC's slower growing economy contributed to its 2002 employment growth rate also falling short of the national average, 1.6 per cent compared to 2.2 per cent. Labour markets play a key role in inter-provincial migration by pulling households to provinces with high job growth and pushing households out of provinces exhibiting less robust economies. As a result, BC's net inter-provincial migration in 2003 will remain in negative territory, although improving marginally over last year. The outlook for net migration is encouraging, however, given recent improvements in the economy.

During the first quarter of 2003, BC employment growth actually outpaced the national average, albeit marginally at 3.3 per cent versus 3.2 per cent. Moreo-

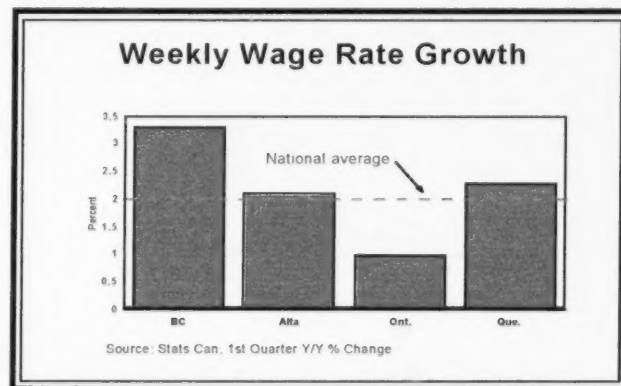
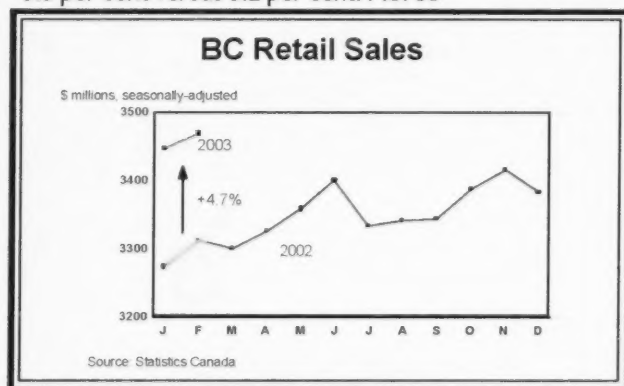
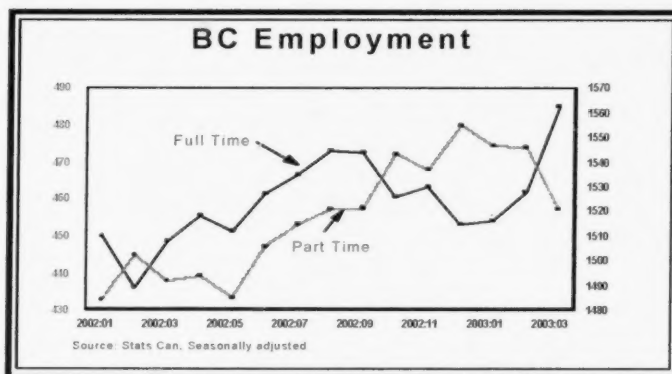
ver, BC employment growth in March led the nation, rising 4 per cent over the same month last year. Recent data also suggests that a trend toward a higher proportion of full time jobs to part time jobs may be emerging, thereby increasing household disposable incomes. Finally, average wages in the province rose 3.3 per cent during the first quarter, well above the national average of 2.0 per cent and higher than both Alberta and Ontario.

Job growth and higher wages are a large reason for expected strong retail sales this year. However, low interest rates are also inducing many BC households to purchase big ticket items like automobiles and consumer durables. The sale of goods complementary to housing, such as furniture and appliances will continue to be strong through 2003, as home buyers add amenity to their homes.

BC economic growth will fall short of the national average again this year, 2.7 per cent for the province com-

pared to a 3.2 per cent Canadian average. However, BC's economic performance will gain ground on the rest of Canada. By 2004, GDP growth in the province is forecast to climb to 3.5 per cent, equalling the Canadian average. Economic expansion also means more jobs. Employment growth is expected to be 1.9 per cent in 2003, and equal the national average at 2.4 per cent in 2004. Moreover, employment growth in 2004 is expected to be highest since 1997.

Overall, the BC economy is in the early stages of a growth phase. A growing economy and the associated job growth will stem the flow of BC households migrating out of the province, and provide stimulus for out of province households to migrate to BC. Net interprovincial migration is expected to be in positive territory by the end of 2003 for the first time in six years. Rising employment and household growth translate into strong demand for housing over the next two years. ■



Forecast Summary

	2001	2002	2003F	%Chg.	2004F	%Chg.
Resale Market						
MLS-GreaterVancouver						
Single-Detached	14,735	16,784	16,500	-2%	16,000	-3%
Townhouse	4,383	5,113	4,950	-3%	4,800	-3%
Apartment	8,791	11,967	11,550	-3%	11,000	-5%
MLS-Fraser Valley						
Single-Detached	7,931	9,288	9,400	1%	9,800	1.2%
Condo	4,148	5,929	5,600	-6%	5,700	-5.5%
MLS Total Sales	39,988	49,081	48,000	-2%	47,300	-2.2%
Single-Detached	22,666	26,072	25,900	-1%	25,800	-0.7%
Condo	17,322	23,009	22,100	-4%	21,500	-4%
Average MLS Price						
Greater Vancouver						
Single-Detached	\$369,268	\$393,953	\$430,000	9%	\$444,000	3%
Townhouse	\$232,434	\$247,215	\$256,000	4%	\$262,000	2%
Apartment	\$176,730	\$197,654	\$206,000	4%	\$215,000	4%
Fraser Valley						
Single-Detached	\$251,380	\$271,464	\$290,000	7%	\$296,000	2%
Condo	\$141,496	\$154,636	\$163,000	5%	\$168,000	3%
New Home Market						
Starts						
Vancouver CMA						
Total	10,862	13,197	15,200	15%	16,000	5%
Single-Detached	3,512	4,980	6,000	20%	6,200	3%
Multi-Family	7,350	8,217	9,200	12%	9,800	7%
Abbotsford CMA						
Total	418	1,038	1,110	7%	1,190	7%
Single-Detached	412	558	580	4%	640	10%
Multi-Family	4	480	530	10%	550	4%
Average Price						
Vancouver CMA						
Single-Detached	\$449,444	\$465,288	\$495,000	6%	\$505,000	2%
Townhouse	\$234,909	\$253,021	\$264,000	4%	\$275,000	4%
Apartment	\$263,171	\$303,669	\$310,000	2%	\$315,000	2%
Abbotsford CMA						
Single-Detached	\$252,364	\$275,044	\$295,000	7%	\$310,000	5%
Townhouse	N/A	N/A	\$210,000		\$218,000	4%
Apartment	N/A	N/A	\$155,000		\$160,000	3%